STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Verizon North Inc. (f/k/a/ GTE North Incorporated) and Verizon South Inc. (formerly known as GTE South Incorporated)	)	
	)	Docket No. 00-0812
Petition seeking approval of cost studies for unbundled network elements, avoided costs and intrastate switched access services.	)	

REBUTTAL TESTIMONY OF

MICHAEL J. BOYLES

On Behalf of

AT&T Communications of Illinois, Inc.

AT&T Exhibit 2.02

PUBLIC VERSION

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael J. Boyles. My business address is 1201 Eye Street, N.W.; Suite 400; Washington, DC 20005.

Q. ARE YOU THE SAME MICHAEL J. BOYLES WHO PREVIOUSLY FILE DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

The purpose of my testimony is to respond to portions of the rebuttal testimony of Verizon witness Tucek filed January 4, 2002.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized in a manner similar to my direct testimony but here, each section addresses the criticisms regarding that section's topic. The remainder of my testimony is organized into six sections. Section II summarizes my conclusions. Section III addresses the criticisms regarding my general modeling issues within ICM. Section IV addresses the criticisms regarding my ICM, SCIS and CostMod switching issues. Section V addresses the criticisms of my issues regarding the way in which Verizon calculates costs. Section VI addresses the criticisms regarding my recommendations on what adjustments could be made to compensate for some of the shortcomings I identified in the models. Section VII presents my overall conclusion of Mr. Tucek's criticisms.

II. SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The majority of my rebuttal testimony addresses Mr. Tucek's criticisms of my direct testimony, each of which have varying effects on switched access costs calculated using ICM. However, in his zeal to rebut my adjustments to ICM inputs – which lowered the switched access costs calculated by Verizon for end office switching and tandem switching – Mr. Tucek makes two statements that overshadow all of his other criticisms. He admits that the discounts used to reduce investments calculated by the SCIS and CostMod switching models were too low. He also admits that the modeled clusters upon which Verizon develops its costs differ from that of the wire centers in Illinois. These two admissions alone suggest that the Illinois Commission should reject the switched access costs calculated by Verizon in Illinois. In addition, I still view the ICM model and supporting documentation as inflexible and not particularly open to inspection so, it too should be rejected by the Commission.

III. ICM GENERAL MODELING ISSUES

Q. WHICH OF THE STATEMENTS IN YOUR DIRECT TESTIMONY DOES MR. TUCEK ADDRESS REGARDING YOUR GENERAL CRITICISMS OF ICM?

A. He addresses my statements regarding Verizon's engineering practices and operating characteristics and ICM's flexibility, testability and openness.

Q. WHAT IS YOUR UNDERSTANDING OF MR. TUCEK'S POSITION REGARDING YOUR POSITION ON VERIZON'S ENGINEERING PRACTICES, OPERATING CHARACTERISTICS AND EFFICIENCIES?

A. As I understand his testimony, Mr. Tucek claims that I never specifically support how or why Verizon's engineering practices and operating characteristics are inefficient (Tucek Rebuttal; p. 24) but he then later states that I have suggested ICM uses historical or embedded costs and claim that is inefficient. (Tucek Rebuttal; p. 32) He does not understand or has mischaracterized my statement, which is based on Verizon not excluding inefficiencies with respect to the selection of switching technology. (Boyles Direct; p. 7)

Q. WHY DO YOU CONSIDER VERIZON'S ENGINEERING PRACTICES AND OPERATING CHARACTERISTICS AS INEFFICIENT AND, THEREFORE, IN VIOLATION OF TELRIC PRINCIPLES?

A. I found that the stand-alone, host and remote switches served relatively few lines compared to their capacity. This contributes to a high switch investment per line, which inflates costs. Verizon based its switch selection on the switch technologies in its current network, without any verification that this is the most efficient network. Therefore, a switching network based on current/historic technologies, without eliminating any inherent inefficiencies, violates TELRIC principles. If a lower cost technology can provide the same functionality as a higher cost technology, then that is more efficient. Mr. Tucek suggests my statements are analogous to someone who drives 40 miles an hour, but buys a car that can go 100 miles per hour, has bought too much car. (Tucek Rebuttal; p. 22) An analogy that represents my point more accurately is that someone doesn't need to buy a nine passenger van when no more than two people will use it.

Q. WHAT DOES MR. TUCEK CRITICIZE ABOUT YOUR STATEMENT REGARDING ICM'S FLEXIBILITY AND TESTABILITY?

A. Mr. Tucek states that only 1,397 records in the switch investment table would require manual entry and only if a change was relevant to all switches[1]. He also suggests a user could develop an interface using a commercially available database program or a programming language. (Tucek Rebuttal; pp. 65-66)

Q. HAS MR. TUCEK'S COMMENTS CHANGED YOUR VIEW OF ICM'S FLEXIBILITY AND TESTABILITY?

A. No. In response to Ms. Buckley's concerns, Mr. Tucek doubts whether any party would consider entering 510 values one at a time as easy or flexible – and I agree. (Tucek Rebuttal; p. 55) He takes a different position when addressing my concerns, even though I would have to change more than twice as many values.

Q. WHAT WAS MR. TUCEK'S RESPONSE TO YOUR COMPLAINT THAT MUCH OF THE SUPPORTING DOCUMENTATION WAS PROVIDED IN A PDF FORMAT?

A. Mr. Tucek explained that Verizon provided the supporting documentation in PDF format as a more efficient substitute for hard copy documentation and that this allowed other parties to narrow the focus of their requests to relevant Excel spreadsheets. (Tucek Rebuttal; pp. 67-68)

Q. DO YOU AGREE WITH HIS EXPLANATION?

A. I agree that PDF files are an efficient substitute for hard copy documentation, but I disagree that they allow parties to narrow the focus of their requests to relevant Excel spreadsheets. Parties would not have to ask for the underlying spreadsheets

[1] I note that a change to each technology's switch discount would be relevant to all switches, and I believe Verizon uses switch discounts that are too low.

if Verizon provided the spreadsheets in the first place. It's important to note that Verizon has to go through an additional step to create a PDF files from each spreadsheet when they could more easily just provide the spreadsheet itself. While Verizon objected on the grounds of burden when I requested all the underlying spreadsheets, I believe it is more burdensome to require parties to request the underlying spreadsheets by name. (Tucek Rebuttal Attachment DGT-7, p. 2) Verizon's position requires parties to review all PDF files to determine those names[2]. The burden would be removed from all parties if Verizon initially provided the original spreadsheets. This is actually less burdensome for Verizon since they would avoid the additional step of creating the PDF file.

IV. ICM SWITCHING ISSUES

A. Technology Selection Issues

Q. IS MR. TUCEK'S CLAIM AT PAGE 22 THAT YOUR RESPONSE TO VERIZON DATA REQUEST VZ-ATT 2.02 CONTRADICTS YOUR DIRECT TESTIMONY ACCURATE?

A. No. My direct testimony observes that modeling unnecessarily large switches results in high investments per line. (Boyles Direct; p. 11) Modeling overly large switches is one contributing factor to high investments per line. Another factor is the discount used to generate those investments, which I address in more detail below. My response to Verizon Data Request VZ-ATT 2.02 states that I recommend using the switching technology with the lowest investment per line.

[2] Verizon's apparent viewpoint is that requesting the spreadsheets in general is not really a request for the spreadsheets. They require specific references.

(Tucek Rebuttal Attachment DGT-7; p. 14) Since the DMS-10 and DMS-100 switches have the lowest investment per line for the six smaller switch sizes, and my adjustment to the Investment Adjustment Factor sets the investments to these lower investments per line, that effectively selects a lower cost and better sized technology, which is consistent with my direct testimony.

Q. WHAT IS YOUR RESPONSE TO MR. TUCEK'S CLAIM THAT THE GTD-5 IS A FORWARD-LOOKING TECHNOLOGY?

A. Mr. Tucek points out that in April 1997, BC TEL signed a volume purchase agreement with AGCS to purchase GTD-5 Class 5 digital switching equipment. (Tucek Rebuttal; pp. 22-23) However, he doesn't indicate whether those are new host switches or merely remotes to add to their existing network. Verizon itself purchased at least one GTD-5 remote for its existing network as late as 1998, but had not purchased at GTD-5 host since 1989. I assume Verizon purchased the remote in order to maintain compatibility with its assigned end office switch. In Illinois, Verizon has not installed a GTD-5 host switch in over a decade, implying that Verizon is moving away from that technology. Mr. Tucek also points out that the Michigan Public Service Commission found the GTD-5 switch to be forward-looking, however, that does not override Verizon's practices in Illinois.

B. <u>Investment Issues</u>

Q. DO YOU AGREE WITH MR. TUCEK'S CLAIMS THAT THE SWITCHING COSTS USED BY ICM ARE NOT OUTDATED AND THAT THERE IS NO TREND OF DECREASING SWITCH PRICES?

No. Mr. Tucek claims that the switch list price information must come from 1999 in order to be consistent with the use of 1999 ARMIS data. (Tucek Rebuttal; p.

68) He also states that the expense-to-investment ratios are calculated from adjusted operating expenses divided by the forward-looking investments modeled by ICM on a per-unit basis. (Tucek Rebuttal; p. 32) However, the use of expense-to-investment ratios is a short-handed means of determining operating expenses. These ratios can then be applied to forward-looking switching investments, which are not by definition bound by the 1999 data from which they are derived. Therefore, it would not have been inconsistent for Verizon to apply its expense-to-investment ratios on switching information later than 1999.

In discussing the report from Huber and Leo regarding declining switching prices that I quoted in my direct testimony, Mr. Tucek states that the information relied upon is outdated and that the decrease in switching costs is unsupported. (Tucek Rebuttal; p. 69) He says these are outdated because they precede the date the report was published by more than a year, but Verizon's switching costs are outdated by almost three years, at this point.

Verizon's own data supports my claim that switching prices are dropping in general. The C.A. Turner indices provided in Tucek Rebuttal Attachment DGT-1 show that the index for account 221200 – Digital Electronic Switching is [[**XXXXX**]]. This index adjusts costs to reproduction costs. (Tucek Rebuttal; pp. 28-29) Obviously, an index less than one indicates that these costs are dropping.

Q. CONSIDERING MR. TUCEK'S ARGUMENTS REGARDING SWITCH DISCOUNTS, DO YOU STILL CONSIDER THE SWITCH DISCOUNTS USED BY VERIZON TO BE TOO LOW?

A. Yes, I do. Mr. Tucek argues that Mr. Zolnierek is wrong when he calculated that the switch cost for Golconda (wire center GLCNILXEDS1) modeled by SCIS is 57 percent greater than the amount paid for the switch in 1998. (Tucek Rebuttal; pp. 39-40) While he calculates that the switch cost modeled in SCIS is actually only 34 percent greater, that is still a significant difference!

Mr. Tucek explains that this difference is because the actual realized discount for a switch configured like the Golconda switch ([[**XXXX**]] percent) is greater than the average discount used by ICM ([[**XXXX**]] percent) for a switch of that type and size. He admits that the switch discount used in SCIS is too low. He rationalizes the use of the average switch discount by claiming that using the discount by line size increases the switched access costs. However, his analysis is wrong.

Q. PLEASE DESCRIBE WHAT YOU BELIEVE IS WRONG WITH MR. TUCEK'S ANALYSIS?

Mr. Tucek calculates an investment adjustment factor ("IAF") based on the ratio of the line size specific discount divided by the average discount. (Tucek Rebuttal; p. 71) His error is that he should have used the ratio of the resulting investments, not the discounts. The resulting investment is defined as one minus the discount. For line size specific discounts that were higher than the average discount, Mr. Tucek calculated an investment adjustment factor that is greater than one, increasing the investment. Obviously, a higher discount should produce

lower investment. Contrary to Mr. Tucek's comment on page 69, I *do* understand the function of the discounts used it Verizon's SCIS and CostMod runs.

Q. WHAT IS THE MAGNITUDE OF THIS ERROR?

A. I compared the results on total switching investment of applying Mr. Tucek's switch specific investment adjustment ratio to that of the corrected switch specific investment adjustment ratio[3]. Mr. Tucek's methodology *increased* total switching investment 4 percent ([[$**XXX**]] million). My corrected methodology *decreased* total switching investment 13 percent ([[$**XXX**]] million).

Q. WHAT DO YOU CONCLUDE FROM YOUR CORRECTED ANALYSIS?

A. I conclude that the switch discounts used by Verizon were too low. The average switch discounts used by Verizon overstates switch investment and, therefore, overstates costs. Additionally, Verizon's line size specific discount used to develop its average discount is lower than the actual realized discount for Golconda. Using the actual discount would further reduce the switching investment.

Q. DO YOU STILL HAVE CONCERNS REGARDING THE RIGHT-TO-USE FEES THAT VERIZON ADDED AS A SEPARATE INPUT TO SCIS?

A. Yes. I cannot verify the right-to-use fees ("RTUs") included by Verizon since I have not seen the contracts Mr. Tucek alludes to in connection with the switch purchase and a national contract. (Tucek Rebuttal; p. 72) Additionally, Mr.

[3] I define the total switching investment as the sum of investment type L0001 in the ICM switch investment table

A. Tucek states that the RTU fees purchased under the national contract provide for a *standard set of end-user features* by switch type as well as upgrades to the operating system and need to be input into SCIS. However, the SCIS/MO input screen for entering getting started investments states, "If capitalizing RTU fees, enter non-feature related material amount to include in the GS Investment: Range: 0 – 9,999,999 Typical Value: 0" This SCIS/MO help message implies that Mr. Tucek erred by including RTU fees for a standard set of end-user features.

C. Growth Issues

Q. DO YOU BELIEVE THAT MR. TUCEK UNDERSTANDS YOUR COMMENTS REGARDING ICM'S INVESTMENT ADJUSTMENT FACTOR?

A. I don't believe he does. First, he says I'm wrong in stating that the investment adjustment factor ("IAF") is used to reflect line and trunk growth in switches. (Boyles Direct; p. 17) However, he describes the IAF in the same manner. (Tucek Rebuttal; p. 70 and 72) Second, he suggests the Commission disregard my statement that the present value of the additional lines should be included in the denominator of the cost-per-line calculations. I will provide an example that demonstrates the present value of the lines should be included.

Suppose a switch has 100 lines installed initially at $50 per line for a total investment of $5,000. Suppose also that 1 line is added for each of the next three years at the same $50 per line and that there is no inflation. Mr. Tucek would calculate the IAF as 1.03. ($5,150 ending investment divided by $5,000 initial

investment equals 1.03) However, the total investment ($5,150) divided by the total lines (103) equals 1.00. The IAF of 1.00 is obviously correct because without inflation, the total investment per line stays the same. Otherwise, the 100 lines initially installed are paying for the future growth. This IAF problem is compounded when applied to switch investments that are already overstated from using discounts that are too low.

Q. WHAT RESPONSE DO YOU HAVE TO MR. TUCEK'S COMMENTS ABOUT YOUR ADJUSTMENT REQUIRING THE IAF TO BE COMPUTED OVER THE LIFE OF THE SWITCH?

A. Mr. Tucek says that my suggested change to the IAF only makes sense if one were computing an average cost per line over the entire life of the switch. (Tucek Rebuttal; p. 73) He goes on to say that the line and trunk additions used in the development of the IAF inputs do not include the required additional equipment. As I explained in my direct testimony, the projected rate of reduction in switch prices should offset the incremental costs per line used by Verizon. (Boyles Direct; p. 17) Therefore, no additional information is required from a cost perspective. His error in calculating his IAF does not mean my recommendation is invalid.

D. <u>Switching Cost Model Input Issues</u>

Q. DO YOU STILL HAVE CONCERNS REGARDING VERIZON'S CALCULATED PROCESSOR UTILIZATION FACTORS?

A. Yes. While Mr. Tucek states that the processor utilization factors ("PUFs") input into SCIS are consistent with processors reaching exhaust before lines and that these PUFs only include the processing portion of the available real time, the

DMS-10 example he cites implies the switch will still be *line* constrained. (Tucek Rebuttal; p. 76). I explained that today's switches are rarely processor constrained in my direct testimony. (Boyles Direct; p. 18) Taking the highest PUF calculated by Verizon for its DMS-10 modeled clusters and adding the 35 percent of the processor real time used for administrative tasks identified by Mr. Tucek still only comes to [[**XXXX**]] percent, which implies the switch is line constrained. I note that the highest PUF entered into SCIS for a DMS-10 switch in Illinois is [[**XXXX**]] percent, far below Verizon's calculated maximum, which further suggests these switches are line constrained.

Q. DO THE SCIS/IN INVESTMENTS INCREASE IF THE CALL COMPLETION RATIO IS CHANGED FROM 100 TO 65 AS SUGGESTED BY MR. TUCEK?

A. No. The SSP Octet investment *decreases* when the call completion ratio is reduced from Verizon's value of 100 to a value of 65. Again, note that Verizon uses a call completion ratio of 65 in its ICM model. The change to the SCIS/IN call completion input affects the Trunk-to-Line Call Setup, Line-to-Trunk Call Setup and Trunk-to-Trunk Call Setup usage features costs. Mr. Tucek incorrectly states those costs increase. (Tucek Rebuttal; p. 76)

Mr. Tucek also states that setting the call completion ratio to 100 prevents the user from having to rerun SCIS/IN. I assume this is to avoid having to rerun SCIS/IN and go through the exercise of importing the values back into ICM. He may not endorse setting the call completion ratio to 100 in SCIS/IN if it were easy to import adjusted values back into ICM.

E. Factors Issues

Q. WHAT IS YOUR RESPONSE TO MR. TUCEK'S CRITICISMS ABOUT YOUR USE OF AN ALTERNATIVE EF&I FACTOR?

A. First, Mr. Tucek's suggestion that the 30 percent EF&I figure recommended by the New York ALJ only reflects engineering and installation ignores his own quote from the ALJ which states, " … making for an overall EF&I factor of 30%." (Tucek Rebuttal; p. 81, line 1827) This 30 percent factor is an *overall* factor and does NOT just reflect engineering and installation.

Second, using this figure is not at odds with TELRIC principles. Mr. Tucek states that the TELRIC standard should reflect the costs ILECs actually expect to incur. (Tucek Rebuttal; p. 81) However, if the costs ILECs actually expect to incur are based on historical costs, as Verizon's supporting documentation appears to rely, and those costs are not forward-looking, then *that* violates the TELRIC standard.

Third, I relied upon a recommended decision because that was the best alternative evidence I could find. While the information is not specific to Illinois, it is Verizon's costs and therefore should be comparable. Verizon Illinois' [[**XXXX**]] percent EF&I factor applied to the switching material investment of [[$**XXXX**]] per line equates to [[$**XXXX**]] per line[4]. (Tucek Rebuttal; p. 83) Verizon New York's proposed 43.5 percent EF&I applied to $128 per line equates to $55.68. Verizon uses a [[**XX**]] percent *higher* EF&I per line value in Illinois than it used in New York.

[4] I do not know the difference between the [[55.5]] percent EF&I factor I calculated for all Illinois switches compared to Mr. Tucek's factor of [[51.8]] percent.

Fourth, Mr. Tucek's argument that my downward revision is more than 1.6 times as great as the 135 basis point decrease recommended by ALJ for Verizon New York is only true if the ALJ recommended a relative reduction in the EF&I factor. (Tucek Rebuttal; pp. 82-83) However, the ALJ recommended an EF&I factor in absolute terms so this argument does not apply.

Fifth, Mr. Tucek's observation that using an across the board EF&I is not realistic because the relative amount of engineering cost declines with switch size means that I actually overstate the EF&I costs in larger switches. (Tucek Rebuttal; p. 83) I also note that the EF&I factors proposed by Verizon Illinois for the GTD-5 and 5ESS switches actually increase with switch size, which is contrary to Mr. Tucek's own observation. Additionally, the ALJ recommended an average to be applied to all switches recognizing that not all the switches in New York are the same size.

Finally, I acknowledge the link between the EF&I factor and the switch investment. The ALJ's 30 percent EF&I applied to Verizon New York's $128 per line investment equates to $38.40 per line. This $38.40 per line for EF&I compared to my adjusted [[$**XXXXX**]] investment per line equates to [[**XXXX**]] percent, which is only [[**XX**]] basis points higher than the ALJ's recommendation. This is much smaller than the 218 basis points identified by Mr. Tucek. (Tucek Rebuttal; p. 83)

V. ICM COST CALCULATION ISSUES

Q. DO YOU BELIEVE THAT MR. TUCEK UNDERSTANDS YOUR ADJUSTMENT TO THE CALL SETUP INVESTMENTS?

A. I don't believe he does. I removed all the getting started investments from the SCIS usage features. These costs should be allocated to the port because switches are rarely processor constrained. (Boyles Direct; pp. 20-21 and 22-23) Mr. Tucek states that SCIS assigns only a fraction of the getting started to line terminations. (Tucek Rebuttal; p. 83) That is exactly my point. SCIS should assign *all* of the getting started costs to the port (a.k.a. line termination). Therefore, I removed *all* the getting started costs from the usage.

Mr. Tucek states that CostMod also assigns a portion of its getting started costs to line terminations, but then goes on to say that my adjustment to the GTD-5 getting switching investments are inappropriate. (Tucek Rebuttal; p. 83) He describes that both SCIS *and* CostMod assign some of the getting started costs to line termination, so my adjustment is appropriate for the investments derived by *both* models.

Mr. Tucek then attempts to demonstrate the magnitude of how SCIS handles getting started investment on the end office switching and tandem switching costs by eliminating just the line termination portion from the getting started investment. His results show a small decrease in costs. That is exactly what he should have expected because he already said only a fraction of the getting started costs are assigned to line terminations. In other words, he removed a little investment and observed a small change in the resulting costs.

Lastly, Mr. Tucek attempts to quantify the impact on the port cost of shifting the getting started investment from usage to the port. He notes that his small shift in investment increases the port cost less than his attempt to quantify my larger shift in investment. Like his previous demonstration and assuming his analysis is correct, this is not surprising. In fact, my direct testimony stated that shifting the getting started investment from usage to the port will increase the port cost. (Boyles Direct; p. 20) If that investment shift is done correctly, the decrease in the usage costs will be exactly offset by the increase in the port cost, although the relative change in each of those costs may not be the same.

Q. IS MR. TUCEK'S ASSERTION ACCURATE THAT YOUR MAIN OBJECTIVE IS TO ADVOCATE REDUCED COSTS AT WHATEVER MANNER POSSIBLE, IN PARTICULAR WITH RESPECT TO SALES, MARKETING AND ADVERTISING COSTS?

A. Not at all. My direct testimony stated that switched access is not something that needs to be marketed. Mr. Tucek's rebuttal identifies only 12 percent of sales (expense account 6612) and 4 percent of product advertising (expense account 6613) indicates that switched access consumes only a small portion of those accounts. (Tucek Rebuttal; pp. 76-80) While we disagree on the magnitude of the SMA costs, Mr. Tucek's percentages acknowledge that they are a small fraction of the total sales and advertising expense accounts.

The adjustment I recommended only reduced my proposed switched access rates by 0.3%. My main objective is to correct errors in Verizon's ICM inputs at whatever the magnitude.

VI. ICM INPUT ADJUSTMENTS

Q. WHAT RESPONSE DO YOU HAVE TO MR. TUCEK'S CRITICISMS REGARDING YOUR COST PER LINE ADJUSTMENTS?

A. Mr. Tucek identifies three reasons why my claim that the switch costs per line generated by SCIS and CostMod are higher than Verizon's target per line switch costs. (Tucek Rebuttal; pp. 75-75) First, he states that the mix of host and remote lines underlying the modeled clusters differs from that of the wire centers in Illinois. It is my opinion that this one statement undermines the very foundation of Verizon's entire switch investment development. Verizon bases its switch discounts on these same relationships, which Mr. Tucek now admits do not pertain to Illinois. Even in the absence of the host of other errors I have identified, I believe this one statement alone should cause the Commission to reject Verizon's proposed switched access rates.

Second, Mr. Tucek points out that line size is not the only determinant of switch costs, and I agree that it is not the *only* determinant. However, his own statistical analysis shows that line size is statistically significant in determining switching investment.

Finally, Mr. Tucek says Verizon did not endeavor to hit some target per-line switching cost, but that's exactly how Verizon developed its discounts. Mr. Tucek explains that "[t]he discount inputs used in the SCIS and CostMod runs were developed to scale the list prices used in these models to a level comparable to the switching prices Verizon pays these vendors for an initial switch purchase." (Tucek Rebuttal; pp. 69-70) If he considers it invalid for me to hit some target

per-line switching cost, then his discount calculation suffers from the same problem.

Q. WHAT RESPONSE DO YOU HAVE TO MR. TUCEK'S CRITICISMS REGARDING YOUR IAF ADJUSTMENTS?

A. Mr. Tucek says my analysis contains several errors and is conceptually flawed. (Tucek Rebuttal; pp. 85-87) While some of his individual observations are correct, most of his conclusions are wrong.

First, he is right that I used per-line investment based on a host/remote cluster for a wire center that is a stand-alone base unit, and vice versa. However, the reason for that is because those are the only modeled cluster sizes and configurations for which Verizon provided information.

Second, he is again right that I used a per-line investment that corresponds to a cluster size smaller than the total of the host and remote lines. However, that was intentional. I used the mid-point between the modeled clusters as my break point. For example, the two smallest modeled clusters have 700 and 1700 lines. The target DMS-100 investment per line for a 700 line switch is [[$**XXXX**]] and for a 1700 line switch is [[$**XXXX**]]. By using the mid-point between the modeled clusters as my break point – in this case 1200 lines – a switch with 701 lines would have a target investment of the 700 line switch, instead of the 1700 line switch. I believe a 701 line switch has more in common with a 700 line switch than a 1700 line switch.

Third, he said my adjustments to the ICM input tables did not obtain my intended results because the results reflect only the switching investments produced by SCIS and CostMod. While my intended result was to adjust the switching investments, he is right that I did not implement my adjustments correctly. For example, my adjustment to the investment adjustment factor was not reflected in my change to the ICM usage investments. Had I done so, I expect that the switched access costs I identified in my direct testimony would have been even lower. (Boyles Direct; p. 24) This further reinforces the fact that Verizon's switched access costs are too high.

Fourth, Mr. Tucek said that is was incorrect to base my average per-line cost on the cluster. However, Verizon used modeled clusters so I based my adjustments on clusters to remain consistent.

Finally, he says I have not considered whether Nortel and Lucent could provide the 270 base units and remotes necessary to implement the proposal. However, my adjustments are used to correct Verizon's ICM inputs in order to make them forward-looking and efficient. Mr. Tucek says my most serious flaw is that "… Verizon is not going to replace the switches in its wire centers with the switch with the minimum of the so-called "target" cost per line." (Tucek Rebuttal; p. 86) Nothing in my direct testimony or this testimony suggests I expect Verizon to replace all of its switches. This adjustment is used to determine TELRIC based costs.

VII. CONCLUSIONS

Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE CRITICISMS IDENTIFIED BY MR. TUCEK IN HIS REBUTTAL TESTIMONY REGARDING YOUR DIRECT TESTIMONY?

A. In his rebuttal testimony, Mr. Tucek pointed out that the average discounts calculated by Verizon using the modeled clusters are too low. On top of that, Mr. Tucek himself stated that the mix of host and remote lines underlying the modeled clusters differ from that of the wire centers in Illinois. These two points alone indicate that not only are the costs calculated by Verizon too high, but that they do not even pertain to Illinois. My view remains that the ICM model and supporting documentation is not particularly flexible or open to inspection, although that is overshadowed by the problems with the costs calculated by the model. I recommend that the Illinois Commission reject the switched access costs that Verizon calculated using the ICM model, and reject the ICM model itself.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.